



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

May 13, 2008

To: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

Board of Supervisors  
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Fifth District

## UNBUNDLING OF COUNTY CONTRACTS – OPTIONS TO HELP SMALL BUSINESSES GROW

On January 15, 2008, on motion of Supervisor Antonovich, your Board directed this Office to work with the Director of the Internal Services Department (ISD) and the Office of Small Business (OSB), to determine whether the unbundling of County contracts would increase the percentage of County contracts awarded to small businesses, and report back to the Board within 60 days. On March 14, 2008, we advised your Board that we would need additional time to develop a complete response and conduct a survey of best practices in increasing small business participation. This report serves as our response to your Board's directive.

While the County has made, and continues to make, great strides in providing contract opportunities to small business, many via Board sponsored initiatives, there are additional opportunities to explore that can improve small business opportunities and participation. As a result of our survey, we have identified additional potential initiatives which we believe would improve the County's efforts to "grow" small firms by giving them a significant piece of business, including the following:

- Offer incentives to prime contractors who utilize a percentage of certified small business as subcontractors or joint venture partners on their projects or bids. This program will seek to encourage and foster business/mentoring relationships between prime contractors and small business through the use of a bid preference.
- Encourage departments to seek bid solicitations under a certain dollar amount only from small businesses. This program will ensure that a portion of County contracts are directed to small businesses, while still maintaining a competitive procurement process.

As discussed below, we are also looking at: 1) partnering with local chambers of commerce, small business incubators, and other small business organizations to support small businesses; and 2) increasing the contract amount which is exempt from performance bond requirements. In addition, we have reviewed the recent recommendations made by the Small Business

Commission, and as further outlined below, we plan to focus on three of the recommendations in particular concerning: 1) establishment of a center for small business; 2) enhanced partnering with Small Business Liaisons; and 3) expanded educational opportunities for small businesses.

This Office will work with the Department of Public Works, ISD, and OSB to develop implementation plans and to track the progress of these proposed programs and report back to your Board accordingly.

### **Impact of Unbundling County Contracts**

The majority of small businesses doing business with the County are primarily involved in the areas of purchase agreements, Proposition "A," or capital project contracts. The following discusses the impact of unbundling purchase agreements and contracts:

#### **Purchasing Agreements**

Purchasing agreements are generally established for high-volume, high-use commodities such as office and building supplies, where thousands of items may be consolidated into an agreement with a fixed-price discount, translating to significant savings compared to the manufacturer's published price. Departments are delegated the authority to make purchases via these agreements, since prices, terms, and conditions have been established by the Purchasing Agent. For example, in the area of office supplies, the County has established a national agreement (through a competitive bid process) that represents "best practices" in public procurement. Currently, 28,000 public agencies across the nation access this agreement. The high-volume usage results in significant discounts, rebates, and savings to the County and its taxpayers.

Unbundling major commodities contracts would not necessarily benefit small businesses. Rather, it could have the unintended consequence of limiting them to a small corner of activity which does not readily constitute a basis for expansion. For example, if the County unbundled the office supplies contract, a small business may be able to become the low bidder on a particular portion of it, such as pencils. However, since the likely reason the small business was able to become the lowest bidder was by significantly cutting their profit margin to produce the low bid, in this scenario the small business does not really benefit from winning the bid or the unbundling of the contract.

We believe that a better approach would be to set a threshold dollar amount (for procurement opportunities that are not part of a larger commodities contract) and then seek competitive bids from small businesses who can supply that commodity.

### Service and Construction Contracts

Generally, small businesses pursue the following types of County contracts:

- Proposition "A" contracts are contracts for services that can be performed more economically by outside contractors than by County employees (examples include janitorial, food, and security services).
- Capital Project contracts are contracts for new County structures or additions of square footage to existing structures, where the addition will cost more than \$100,000.

While small businesses may bid on large contracts directly, the greatest opportunities appear to be in the area of subcontracting or becoming a joint venture partner with the prime contractors or larger companies to provide the services. Offering small businesses intact, more varied components of larger contracts allows small businesses to expand their expertise, grow their business, and compete for a broader range of services.

### Best Practices Survey

In an effort to determine if the County is exploring all opportunities to expand small business participation, ISD conducted an informal survey of government agencies to determine if they have a formal small business purchasing or contracting outreach policy/program. Of the approximately 90 jurisdictions polled, both locally and nationally, 23 provided responses. Of the 23 responses, the following indicated they have a small business purchasing or contracting outreach policy/program:

AGENCY	SPECIAL PROGRAMS	OUTREACH PROGRAMS
State of California	Yes; five percent cost preference for small businesses	Has a formal Office of Small Business; participates in trade shows, vendor fairs, etc.
Maricopa County, Arizona	Yes; for competitive purchases of \$50k or less, departments must consider small businesses first	Holds workshops; participated in vendor fairs; works with local organizations to further program goals
Los Angeles Unified School District	Yes; construction contractors required to use minimum 25 percent of small business as subcontractors	Has a formal Small Business Boot-Camp program; and offers assistance to small businesses for bonding, financing, etc.
Los Angeles Department of Water and Power	Yes; five percent cost preference for small businesses; and ten percent qualify if regional – on bids over \$25K	Holds small business workshops, expos and special events
City of Los Angeles	Yes; ten percent cost preference on bids less than \$100K	Holds a monthly meeting with businesses; meets with other agencies

Our research of other agencies found the following common factors among the best practices aimed at increasing small business contracting participation.

- Define a percentage goal for small business participation and track the results annually to identify trends, challenges, and opportunities for process improvement.
- Establish an official small business section, program, or policy. Specifically, establish a policy in which departments are not required to obtain competitive quotations for awards to small business under \$5,000 as long as the bid received is fair and reasonable.
- Establish a percentage bid preference for small business. For example, the State of California allows certified small business (SB) and microbusiness (MB) firms and non-small businesses who subcontract with a certified SB/MB firm to receive a five percent bidding preference on applicable State solicitations. The effect of the preference is to help SBs/MBs be more competitive in the bid process, thereby enhancing State contract awards directly or indirectly to SB/MB. The preference is only used for computation purposes to determine the winning bidder; the contract is awarded at the actual bid amount.

#### **County's Efforts in Promoting Small Business Participation**

In 1997, the Board adopted the "Bold Steps Forward" report which detailed specific steps and recommendations to facilitate small business participation in County purchasing and contracting. Since then, the County has made tremendous strides with the implementation of several small business initiatives.

One of the County's most successful small business initiatives is the Local Small Business Enterprise (LBSE) Preference Program, which was established by your Board in 2002. This program offers certified small business the following advantages:

- A five percent preference on applicable County solicitations and contracts, and
- Being hosted on the County's Internet Certified Listing providing more visibility to County departments.

As a result of LBSE, the County has made significant gains in the number of awards made to small business, as shown below:

- 25 percent increase in the number of awards made to Local Small Business from 10,949 in 2006 to 13,643 in 2007.
- 37 percent increase in the dollar amounts awarded to Local Small Businesses from \$58 million in 2006 to \$79.2 million in 2007.

- LSBEs are currently getting two percent of the County's business in purchase orders and contracts; but only represent a little more than one percent of the County's vendor population (383 out of approximately 35,000).
- LSBEs currently hold seven percent of all Purchasing Agent commodity agreements (61 of 876).

It is worth noting these statistics do not represent other small businesses that are currently doing business with the County but have not registered or been certified as an LSBE. The number of LSBEs is expected to increase gradually as awareness of this program continues to expand throughout the County.

#### Existing Small Business Outreach Efforts

- Coordinate and conduct Quarterly Contract Connections Workshops in each Supervisory District (which are attended by the respective Board member for that district).
- Actively participate in vendor fairs and workshops hosted by other agencies, including chairing or co-chairing the Greater LA Vendor Fair. The County has booth space at these events, provides electronic vendor registration on-site, conducts workshops for County business requirements and opportunities, and provides one-on-one consultation to vendors. These events are staffed by OSB, ISD's Vendor Relations unit, and also buyers from ISD's Purchasing Division.
- Provide one-on-one consultation and assistance to small businesses.
- Coordinate and conduct monthly Small Business Commission Executive meetings and Quarterly meetings of the full Commission.
- Coordinate and conduct quarterly meetings of the Departmental Small Business Liaisons.
- Provide small businesses with calendar information on vendor fairs, workshops, conferences, up-coming events, etc. via Website and e-mail blasts.
- Publish local SBE "yellow pages" to provide departments with a convenient list of certified small business vendors and encourage procurement and contract sections to solicit from this list whenever possible.

#### Next Steps

This Office, in cooperation with ISD and OSB, will explore the following:

- The feasibility of piloting a program with the Department of Public Works (and other departments as applicable) to provide a bid preference, similar to the bid preference available in the LSBE Preference Program. The program would seek offer incentives to

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prime contractors who utilize a percentage of certified small businesses as subcontractors or joint venture partners on their projects. This program will seek to encourage and foster business/mentoring relationships between prime contractors and small businesses.

- A program designed to expand and formalize the practice of encouraging departments to direct bid solicitations under a certain dollar amount only to small businesses.
- Partnering with local chambers of commerce, small business incubators, and other small business organizations to support small businesses.
- The feasibility of increasing the current contract dollar threshold below which performance bonds would not be required, to better reflect inflationary costs since the current contract threshold (\$50,000) was established.

The County must continue to aggressively advertise and promote sustainable outreach strategies to small businesses to increase awareness of applicable contracting opportunities, particularly during the current economic slowdown. Along those lines, we will also consider the following recommendations from the Small Business Commission:

- Determine the feasibility of establishing a center for small business where small businesses could retrieve materials, learn about County and other business opportunities, and meet with Commissioners and County staff.
- Facilitate partnering with departmental Small Business Liaisons and vendors to identify areas for improvement in the procurement and contracting process.
- Support educating small businesses on State and local workforce training programs available to help them find qualified employees.

This Office will work with ISD and OSB to track the progress of these proposed programs and report back to your Board accordingly.

Please let me know if you have any questions, or your staff may contact James Hazlett at (213) 974-1148 or [jhazlett@ceo.lacounty.gov](mailto:jhazlett@ceo.lacounty.gov).

WTF:ES:MKZ  
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c: All Department Heads (Via Electronic Mail)  
Administrative Deputies (Via Electronic Mail)  
Small Business Commission (Via Electronic Mail)  
Contract Managers' Network (Via Electronic Mail)